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ABSTRACT

Title I of Public Law 92-512, the State and Local Fiscal Assistance Act of 1972, is popularly known as the Revenue Sharing Act. It provides for payments of approximately $30.2 billion to over 38,000 general units of governments, the 50 states, the District of Columbia, and approximately 350 Indian tribes and Alaskan native villages. Revenue sharing funds may be spent with a minimum of Federal regulation and restriction--states may spend their entitlements in any expenditure category they wish. A number of recreational and cultural activities are eligible for support. States and local governments spent approximately 4 percent of their budget on recreation programs from 1972 through 1974. There are many advantages to revenue sharing, such as (1) it is predictable, since funds are authorized for 5 years; (2) there are few bureaucratic problems; (3) it is simple to apply for funds; (4) no arbitarary decisions are made on merits of programs; (5) it disperses aid universally; and (6) it is administratively inexpensive. Categorical grants by the federal government, on the other hand, force local funds to match categories of the grants even when local priorities are different, operate against small communities which don't have or can't afford "grantsmanship", and make reporting difficult. Revenue sharing has been studied and positively reviewed by everyone from Congress to individual scholars and consumer groups. The President recommended that the program be extended until 1982, with minor modifications, and it is hoped that Congress will concur. (CD)

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REVENUE SHARING - UP TO MINUTE INFORMATION

REMARKS BY

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OFFICE OF REVENUE SHARING

U. S. DEPARTMENT OF THE TREASURY

Before the

NATIONAL RECREATION AND PARK ASSOCIATION

1975 CONGRESS

DALLAS, TEXAS

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U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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It is a privilege for me to have this opportunity to talk to you about revenue sharing. Two years ago, this very month, you were kind to invite me to speak at your 73rd Congress at Washington. At that time in 1973, the General Revenue Sharing program was one year old.

I have reviewed a copy of that talk which I gave to you in October 1973 and there is not a word of it that I would change if I were giving it for the first time. I still believe that revenue sharing is an exciting experiment, designed to improve and strengthen the role and effectiveness of local government. There is nothing that I said two years ago that I would retract or correct today.

REVIEW

For those of you who were not with us in Washington on October 3, 1973 - or who opted on the afternoon that I spoke to listen instead to Senator Vance Hartke or to the Assistant Secretary of State for Cultural Affairs, who were giving their presentations in different rooms at the same time, let me review very briefly what general revenue sharing is about.

Title I of Public Law 92-512, the State and Local Fiscal Assistance Act of 1972, is popularly known as the Revenue Sharing Act. It was signed into law by President Nixon on October 20, 1972. It provides for payments of approximately $30.2 billion to over 38,000 general units of governments, the 50 states, the District of Columbia, and to approximately 350 Indian tribes and Alaskan native villages. The funds were appropriated to be distributed to the recipient governments through seven entitlement periods, retroactive to January 1, 1972 and ending on December 31, 1976. After January 1, 1973, the payments of entitlements are made within 5 days after the close of a calendar quarter. Through the quarter which ended on September 30, 1975 - a total amount of $22 billion has been distributed to all recipient governments. Two-thirds of the $22 billion has been distributed to units of local general government; one-third has gone to the States.

The purpose of the general revenue sharing program is to provide a new and fundamentally different kind of financial assistance to State and local governments. Revenue Sharing funds may be spent with a minimum of Federal regulation and restriction. States may spend their entitlements in any expenditure category they wish. The units of local governments have eight broad

priority expenditure categories in which to spend their revenue sharing funds on operation and maintenance expenditures. In framing the list of priority items for which local governments may spend revenue sharing funds, the Congress was guided by consideration of items which were clearly priority items in terms of national objectives. The priority expenditure items for local governments cover almost every activity a unit of local government can engage in, with the exception of maintenance and operating expenses for education, general administration expenses of government, and direct transfer cash payments to welfare recipients. Ordinary and necessary capital expenditures authorized by law are permissible for local governments, regardless of the functional area of the capital expenditure. There is no priority category classification for authorized capital expenditures.

Appropriation and expenditure decisions are the responsibility of the recipient government and its citizens. It is the citizens, through the recipient governments, who decide how much, if any, revenue sharing funds will be expended in one category or another.

WHERE DOES RECREATION AND PARKS FIT INTO REVENUE SHARING?

The eight priority categories of expenditure for local recipient governments include the category of recreation. The

Office of Revenue Sharing has given the term "recreation" a broad and common-sense interpretation. As I mentioned to you two years ago, we have issued letter rulings answering the question "What is Recreation?" These letter rulings were issued in response to given and specific fact situations. Additionally, we have been advised of various types of expenditures made by recipient governments which we have concurred constituted valid expenditures for purposes of recreation. Now, three years after the program has been in effect, I can report to you from A to Z about eligible maintenance and operating expenditures for recreation.

If you are ready, I will read the list of eligible recreational and cultural services from A to Z.

Art commission
Art gallery
Auditorium
Band concerts
Beautification program
Bicentennial celebration
Bicycle paths
Botanical gardens
Campground
Celebrations, public
Civic entertainment program
Comfort stations, public
Concert hall
Dance workshop
Docks, public
Drama in the park
Forestry, bureau of
Game wardens
Golf course
Harbor commission
Historical society, contribution to
Historic preservation
Marina
Museum
Music in the park
Music program
Neighborhood park
Orchestra, public
Orchestra, subsidy to
Organized athletics
Park
Playground
Recreation center
Recreation department
Recreation director
Regional park
Stadium
Swimming pool
Tennis courts, indoor

Tennis courts, outdoor
Theater
Tree planting
Visitors bureau
Wharves
YWCA-YMCA, subsidy to
Youth club, subsidy to
Zoo

Some of the foregoing activities may be eligible for revenue sharing funding under other priority expenditure categories. For example, public docks and wharves may constitute a permissible expenditure of revenue sharing funds under the category of transportation. Game wardens may also be permissible under the category of health. Some recreational activities are limited by the priority categories. Dance workshops and music workshops are permissible when not a part of the formal public school curriculum. Playgrounds do not include school playgrounds maintained by the public school system. The reason for the qualification of the latter items is that maintenance and operating expenses for education do not constitute permissible revenue sharing expenditures.

How much shared revenues have been used for the expenditure category of Recreation? I can't give you an up-to-date figure for the end of the 5th Entitlement Period, which ended June 30, 1975. The Actual Use Reports for EP 5 which were filed with the Office of Revenue Sharing on September 1, 1975 have not been

completely tabulated. Those figures will be available shortly.

However, for the period for the beginning of the revenue sharing program (retroactive to January 1, 1972) through June 30, 1974, all recipient governments reported to the Office of Revenue Sharing that they spent close to one-half billion dollars (in actual numbers, $425 million) or approximately 4+% of the total entitlements (as of June 30, 1974 amounting to $9,466 billion) on recreational and cultural services. The States reported that they had used $40 million or 1% of their entitlements on recreation. The local recipient governments reported the use of $385 million or 6% of their entitlements on recreation.

However, let's look at the picture a bit closer, especially for the local governments which received 2/3rds of the revenue sharing allocation. As you may suspect, local governments spent more than 1/3rd of their shared revenues for public safety (36% for police, fire protection, building inspection, etc.). Next, with 19% was the category of Transportation - (roads, streets, bridges, public transit systems, etc.). General multi-purpose government and environmental protection accounted for 11% and 10% respectively of local expenditures of shared revenues. Health accounted for 7% just a shade ahead of recreation, which as I mentioned before, was 6%. The remaining categories were 3% or less.

An undetermined, but probably substantial, number of dollars in these "other" priority areas may have probably been spent in support of recreation. Police and fire services are obvious for their impact on recreational areas and facilities. But our recipient governments also advise us that revenue sharing funds have been used to build roads to recreational facilities. Total benefit of revenue sharing to "recreation" is probably uncalculable, but must considerably exceed $425 million.

Revenue Sharing after Three Years

After three years of working with the revenue sharing program as its chief legal officer what do I consider the advantages of the program?

First of all, general revenue sharing is predictable. Under Title I of the Revenue Sharing Act, Congress appropriated funds for five years in advance. Unlike the categorical grants for which Congress makes annual appropriations, recipient governments know that they can expect to receive their revenue sharing entitlements in quarterly payments in each October, January, April and July.

Second, the general revenue sharing program is flexible. Revenue sharing funds may be used almost entirely as the recipient governments find the need and urgency to use them. The

responsibility for local expenditure decisions is where it belongs - on the local government, not on Federal officials in Washington.

Third, the general revenue sharing program is free of red tape and Federal bureacratic oversight. The restrictions are few, the most important being the obvious one of nondiscrimination on the basis of race, color, national origin or sex in any project or activity funded with shared revenues. Local recipient governments are required to file only two simple forms with the Office of Revenue Sharing each year. There is no "bureaucratic overkill" in the execution and administration of general revenue sharing.

Fourth, the general revenue sharing program is fair and equitable. No applications are required. There is no room for value judgments or personal predispositions in the applicability of the revenue sharing allocation formula. The data used in the allocation formula are supplied by the Bureau of the Census and every recipient government is fully advised of its data elements used in the formula and is given the opportunity to challenge or verify that data. All data and reports of all allocations are published by the Office of Revenue Sharing at regular intervals. We have no secrets locked into the inner recesses of our computer. The revenue sharing program operates under the principle

of maximum visibility. The program was created for the benefit of State and local governments, not for the benefit of a Federal bureaucracy.

Fifth, the general revenue sharing program is universal in its effects. Shared revenues go to all states and units of general government. While we recognize that different types and sizes of governments have different needs, we recognize something else - that is, that all governments have varying and pressing needs that must be satisfied.

Sixth, the general revenue sharing program is inexpensive to administer. The Office of Revenue Sharing has a total staff of about 90 persons. The cost of administration is ridiculously low - about 13/100th of one percent of the funds distributed in an entitlement period. Incidentally, the administration costs come from the general appropriation of the Treasury Department and not by reduction of the entitlements. For this 13/100th of one percent, the ORS for FY 1974 answered more than 6,000 written questions and over 14,000 telephone inquiries from recipient governments, Congressmen, public interest groups and citizen organizations. In FY 1974 we responded to more than 700 Congressional inquiries alone. We mailed out 47,000 pieces of printed information (excluding revenue sharing checks but including, of

course, requests for multiple copies of a publication). We verified 3,500 payments to recipients upon request of independent public accountants and State auditors. We corrected and revised approximately 2000 data items. We issued approximately 300 legal opinions in response to specific individual requests of governments. As a footnote I might add that the cost of administration of the categorical grants varies from a low 2% to a high of 4% of the funds disbursed.

I maintain that the foregoing are advantages of general revenue sharing especially when I compare revenue sharing with the Federal categorical grant programs. What do I see about the grant programs which, in my firm judgment, compares unfavorably with general revenue sharing? I have time only to sketch a few in brief:

1. The categorical grants tend to distort local priorities, because the Federal grant money is identified with specific objectives and the local match funds are fitted to produce the Federal grant, irrespective of vital needs. The local match funds - once committed to attract the Federal grant - have no alternative use. Situations and priorities may change, but the local funds are committed.

2. The art of "grantsmanship" affordable by the larger units of government, works to the disadvantage of the small and medium size communities, many of which are not able to employ the expertise required to attract grant money. An example which comes to my mind and which was reported in late 1972 involved the City of Fountain Valley, California. Fountain Valley reported to the Senate Subcommittee on Intergovernmental Relations - and I quote:

> "We did not apply for a grant for bicycle trails since the amount which would be received could not be justified by the amount of work in applying."

3. The bureaucratic requirements of the grant programs to ensure that the Federal funds are expended and accounted for in accordance with the specific priorities required under the grant legislation, presents local government with extensive compliance and reporting burden. At the same hearings referred to a moment ago, the City of Warren, Michigan lamented that the regional office of one Federal agency boasted that it had reduced the administrative cost of processing a $10,000 loan to $10,000.

I do not intend the foregoing to constitute an indictment of the total categorical grant approach nor to suggest that we do not need narrowly defined intergovernmental assistance in

program areas where clearly defined national priorities exist. The categorical grants have funded many worthwhile projects and the Administration has not viewed general revenue sharing as a replacement for categorical and similar forms of Federal assistance; categorical grant funding has done a presentable job of targeting real and immediate local needs and of accommodating expenditures to national social priorities. On balance, however, it is my judgment that shared revenues are superior to categorical funding. In this connection, we should not overlook the socalled "block grants" (sometimes referred to, perhaps erroneously, as "special revenue sharing"). Block grants seem to be a rational compromise between the proponents of categorical grants and general revenue sharing. I am sure you are familiar with block grants such as LEAA, CETA, (Comprehensive Employment Training Act) and the Housing and Community Development Act of 1974. The latter two have some of the characteristics of general revenue sharing.

The general revenue sharing program has been the most thoroughly studied Federal assistance program in history. It has been the subject of study and scrutiny by Congressional committees and by more individuals, academicians, public interest groups, economists, political scientists, task forces, (both privately

funded and publicly supported) than any other Federal program in the history of the Federal government. In the House of Representatives the following committees (or subcommittees) have had hearings on General Revenue Sharing: The Committee on Government Operations, the Judiciary Committee's Subcommittee on Civil Rights and Constitutional Rights, the House Budget Committee, and the Appropriations Committee. In the Senate, the Committee on Finance and the Committee on Government Operation's Subcommittee on Intergovernment Relations. In addition, there have been hearings before the Joint Economic Committee. No other Federal assistance program has been the subject of such intense investigation by such a variety of organizations, including (besides the Treasury Department) at least three other Federal agencies. So, there is a lot of information about General Revenue Sharing now available.

The primary purpose and objective of these studies and investigations are to ascertain how the general revenue sharing program is operating, whether it is meeting the purposes for which the Congress enacted the measure in 1972, whether the allocation formula operates to distribute funds equitably, whether the program should be renewed when it terminates on December 31, 1976 and, if so, what changes, if any, should be made.

In August 1974, shortly after assuming office, President Ford established a study group to analyze revenue sharing. That group became known as the Treasury task force since it was headed by the Under Secretary of the Treasury. The task force examined and considered a wide range of changes in the revenue sharing program, sought to make an assessment of the programs performance, and sought the recommendations of diverse groups. In January 1975, it made its recommendations to the President.

On April 25, 1975, President Ford presented to the Congress proposed legislation to extend and revise the Revenue Sharing Act, at approximately the same funding level through September 30, 1982. Essentially, and briefly, the President's legislative proposal retains the basic features of the current revenue sharing program while offering a number of changes, primarily to strengthen the civil rights provisions of the existing law, and to strengthen public participation in determining the use of shared revenues. The Administration's proposal retains the current eligibility requirements and preserves the basic allocation formula, except for raising at 6% per year the maximum per capita constraint from 145% to 175% of the average per capita grant in a state. The Administration's proposal for extension of general revenue sharing was introduced in the House on April 30, 1975 and in the Senate on May 1.

The extension of the revenue sharing program is likely to require many days of Congressional committee hearings, and a fair amount of time. It is important, however, that the State and local governments know where they stand and whether they can expect to receive shared revenues past December 1976 and in what amounts and under what conditions. The President stated it this way in his transmittal message:

> "* * * Effective planning at the State capitols, city halls, and county courthouses will require action in this first session of the 94th Congress. In fact, in the fall of 1975 many of our States and local governments will be preparing their fiscal year 1977 budgets. It will be essential for them to know at that time whether General Revenue Sharing funds will be available to them after December, 1976.* * *"

Accordingly, it is our hope that hearings will be held early and that the renewal legislation will be approved before the current session of the Congress adjourns.

To sum up, General Revenue Sharing has been in being for three years. It is working. It has demonstrated its legitimacy. It is supported by diverse groups of advocates. It is a landmark in Federal-State-Local fiscal relationships. Revenue

sharing is an expression of confidence in the ability of State and local officials to wisely and effectively execute their responsibilities for governing their communities. Most of all, General Revenue Sharing is an exciting program. Those of us who have been intimately involved with its work from day-to-day for the past three years, are confident that its future is bright and assured.

Thank you for your cordial hospitality and for the opportunity to be here in Dallas with you.